

Coffee Updates

World coffee production in 2006/07 is forecast at 123.6 million bags (60 kilograms or 132.276 pounds), up nearly 10 percent, or nearly 11 million bags over the previous year. Most of the increase is attributed to the rise of the coffee crops in Brazil, Vietnam and Peru. Brazil's production of coffee during 2006/07 is forecast at 44.8 million bags, up nearly 25 percent over the previous year. Vietnam's coffee production during 2006/07 is forecast at 13.85 million bags, up from 12.3 million bags the previous year, but still lower than prior years. Peru's coffee production in 2006/07 is forecast to rise to 3.5 million bags. Other notable changes in production include: Ethiopia, down 500,000 bags; Burundi, up 450,000 bags; and Honduras, down 400,000 bags.

Since Brazil is the largest coffee producer, swings in Brazil's supplies of coffee account for a large portion of the change in the world total supplies of coffee. Total coffee supplies in 2006/07 are forecast at 146.9 million bags, up nearly 7 percent from the 2005/06 preliminary level. This should allow some recovery in ending stocks.

With the increased supplies, coffee exports are forecast to recover. World coffee exports in 2006/07 are forecast at 92.8 million bags, up 7.2 million bags from 2005/06. Brazil is contributing about half of that forecast gain. Brazil's exports of coffee in 2006/07 are forecast at 27.75 million bags, up 3.7 million bags from the previous year. Other notable changes include: Vietnam, up 1.3 million bags; Peru, up 1.1 million bags; and Mexico, up 900,000 bags.

Brazil

Brazil's coffee production for marketing year (MY) 2006/07 (July-June) is forecast at 44.8 million bags, a 24 percent increase compared to the previous year. Higher production is mainly due to the biennial production cycle of arabica trees, which are experiencing a high production year and are forecast to produce 34 million bags. Robusta trees should account for 10.8 million bags, up 7 percent compared to the previous crop. Overall, arabica coffee trees benefited from good weather conditions during blossoming in September-November 2005. However, in Minas Gerais, which represents approximately 50 percent of total production, the dry weather that prevailed in the eastern growing region during the beginning of the year partially offset initial prospects for a better crop. The dry weather also affected arabica production in center-southern Espirito Santo. The expected increase in production was also supported by improved prices throughout 2005, which provided an incentive for better crop management and higher use of inputs.

Brazil's Coffee Production

State/Variety	2002/03	2003/04	2004/05	2005/06	2006/07
Minas Gerais	26.70	14.40	21.40	16.30	22.30
Southwest 1/	15.00	7.40	11.50	4.30	12.50
Central-Western 1/	4.85	3.20	4.20	3.30	4.00
Southeast 1/	6.85	3.80	5.70	5.70	5.80
Espirito Santo	11.50	7.90	8.10	8.40	9.60
Arabica	3.00	1.70	2.50	2.20	2.20
Robusta	8.50	6.20	5.60	6.20	7.40

Sao Paulo 1/	5.90	3.10	4.90	3.30	4.60
Parana 1/	2.60	2.20	2.60	1.80	2.30
Others	6.90	5.60	6.60	6.30	6.00
Arabica	3.40	2.20	2.90	2.40	2.60
Robusta	3.50	3.40	3.70	3.90	3.40
Total	53.60	33.20	43.60	36.10	44.80
Arabica	41.60	23.60	34.30	26.00	34.00
Robusta	12.00	9.60	9.30	10.10	10.80

1/ Arabica.

Brazil's government auctions are as follows:

Brazil: Auctions of Government-Owned Coffee Stocks			
Date of Auction	Quantity Offered	Quantity Sold	Price Range
	60-kilogram bags		Brazil reais/bag
2006			
January 11	50,000	49,820	173.00-184.00
January 26	70,000	70,000	172.70-192.00
February 8	80,000	80,000	156.20-175.00
February 22	100,000	95,510	150.00-170.50
March 9	100,000	90,852	150.00-160.00
March 22	90,000	83,510	157.50-165.00
April 5	80,000	78,548	155.00-165.50
April 26	80,000	80,000	152.00-159.00
May 10	60,000	60,000	162.00-166.00
May 24	60,000	59,800	158.00-175.50

Vietnam

Vietnam 2006/07 coffee production is forecast at 13.85 million bags due to better weather in late 2005 and early 2006 as compared to the same period in the previous crop year. Yields are forecast to increase by more than 10 percent.

With the lessons learned from the over supply of coffee that contributed to the sharp drop in world prices over the last decade, Vietnam's government has readjusted its coffee strategy toward a more rational production. The government is encouraging Robusta farmers in marginal areas to replace their coffee with other crops such as cashew, cocoa, or subsistence crops. In suitable areas (e.g., high altitudes), the government promotes the careful and slow expansion of Arabica plantations. The key policy goal is for Vietnam to reduce both coffee area and production and adjust quality until it is in a better long-term equilibrium with the world market.

The government is proceeding only slowly with market reforms in the coffee sector. In March 2006, the Prime Minister promulgated a decision to restructure the Vietnam Coffee Corporation (Vinacafe), the main state company involved in the sector. Some of Vinacafe's subsidiaries will be dissolved and one third of its companies will be maintained as before. However, the majority will become joint stock companies with a ratio of 51 percent state to 49 percent private shares. The restructuring is intended to make the company more competitive, but the limited scope reflects the continued desire of elements in the government to maintain some state influence.

Colombia

Coffee production in 2006/07 is forecast to reach 11.6 million bags. Coffee growers, mainly in the most productive coffee area, have adopted the national plant renovation program as a regular farm practice. The Coffee Federation has been encouraging coffee tree renovation for several years. On average, 20 percent of the coffee area is renovated each year and the average age of coffee plants is now five years old. This renovation program is expected to result in a low variation in production from one year to another. Production changes will mainly depend on weather and improvements in efficiency. Although new areas planted are likely to arise, the strong peso and higher production costs will discourage significant new plantings. Higher international coffee prices have encouraged investment in the most efficient producing areas, rather than an expansion in area. Production has been falling in marginal coffee areas, but this has been offset by increasing tree density and high productivity in the most competitive coffee areas. High international prices have also stimulated new plantings in the southern areas of the country, which have started producing high quality coffee.

The production policy of the Coffee Growers Federation has been oriented toward achieving efficient production and high quality. As part of this strategy, CENICAFE (Scientific Research Center for Coffee) has developed new techniques to make improve the efficiency of picking ripe coffee cherries by hand to reduce the harvest time and limit the amount of fallen coffee cherries (that can host coffee pests). Picking of coffee cherries represents an estimated 40 percent of production costs. The Coffee Growers Federation is also encouraging supplementary activities for small coffee producers to diversify their income. Ninety percent of coffee plantations are less than 5 hectares.

The Federation has been promoting specialty coffees, including organic and identity preserved coffees. Local contacts report significant premiums for those coffees and growing production. Specialty coffees may represent as high as 20 percent of production in some areas.

Peru

Coffee production for 2006/07 (April/March) is forecast at 3.5 million, a significant recovery compared to the previous year. Due to physiological stress, which causes plants to decrease its production dramatically every four to six years, coffee production fell 32 percent in 2005/06. However, production is expected to resume and increase sharply in the upcoming years encouraged by good international prices. Coffee in Peru is mostly grown by very small producers; the average producer has 2-3 hectares under production. About 75 percent of the coffee grown in Peru is produced over 1,000 meters above sea level and as high as 1,800

meters. Yields are around 750 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers. Low yields are due to poor cultural practices such as fertilization and plant replacement. Production of special coffees (organic, gourmet and fair trade) has increased significantly in the past three years.

Coffee exports in 2006/07 are expected at 3.29 million bags. Peru's coffee producers are confident they can double its exports in the next four years due to increasing demand. Germany and the United States are the most important markets for Peru's coffee.

United States

According to the National Coffee Association's (NCA) 2006 National Coffee Drinking Trends, U.S consumers who drank coffee every day jumped to 56 percent from 53 percent in 2005 and 49 percent in 2004. The report went on to show that 82 percent of all American adults drink coffee, up from 80 in 2005. Most of the increase in daily consumption was driven by consumers 25-39 years of age. Daily consumption among this group jumped to 47 percent in 2006 from 41 percent in 2005. Second to the 25-39 year olds was consumption among those 18-24 years of age. Daily consumption among this group soared to 31 percent from 26 percent in 2005 and from only 16 percent in 2003. For more information about this report, contact the NCA on 212-766-4007, or see its web site, www.ncausa.org

U.S. coffee stocks at the end of April 2006 totaled 5.2 million bags, down 76,002 bags from the March 31, 2006, level.

U.S. Coffee Stocks

Location	March 31	April 30	Difference
-----60-kilogram bags-----			
New York	1,916,349	1,850,230	(66,119)
New Orleans	1,308,037	1,308,060	23
Jacksonville	130,312	136,044	5,732
Miami	693,577	685,032	(8,545)
Houston	426,961	439,652	12,691
Laredo	70,649	72,649	2,000
Port Everglades	0	0	0
San Francisco	344,610	326,153	(18,457)
Los Angeles/Long Beach 1/	100,266	107,856	7,590
Seattle/Tacoma 1/	130,494	100,553	(29,941)
Norfolk	129,915	149,572	19,657
Philadelphia	5,878	5,509	(369)
Baltimore	17,927	17,663	(264)
Total	5,274,975	5,198,973	(76,002)

Source: Green Coffee Association, Inc.

1/ Beginning from January 2006.